

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY**

Applicant:	Los Angeles Jewish Home for the Aging (LAJHA)	Amount Requested:	\$15,100,000
Location:	Reseda, California (City and County of Los Angeles)	Loan Term:	30 years
Project Sites:	18855 Victory Blvd., 7150 Tampa Ave., Reseda, CA	Date Requested:	December 5, 2002
Facility Types:	Skilled Nursing	Resolution Number:	F-294

Uses of Bond Proceeds: Bond proceeds will be used to reimburse LAJHA for construction and development expenditures related to the building of the Goldenberg-Ziman Center. Proceeds will also be used to fund the architectural and pre-development costs for Grancell Village Corner, a future project.

Type of Issue:	Negotiated Public Offering, Variable Interest Rate
Credit Enhancement:	Letter of Credit
Expected Credit Rating:	Aa3 or VMIG1 (Moody's), with Allied Irish Bank LOC
Senior Underwriter:	Cain Brothers
Bond Counsel:	Hanson, Bridgett, Marcus, Vlahos & Rudy

Financial Overview: During our review period, LAJHA reflects improving operating results, but continues to report an operating loss. However, the change in unrestricted net assets has been positive in each year due primarily to contributions received for capital projects. LAJHA balance sheet is solid with minimal debt.

Sources of Revenue (000's): (FYE 8/31/01)	<u>Amount</u>	<u>Percent</u>
Net patient revenue	\$22,996	72.4%
Contributions	6,749	21.3%
Net assets released from restrictions	1,376	4.3%
Investment income	524	1.7%
Other income	<u>110</u>	<u>.3%</u>
Total	<u>\$31,755</u>	<u>100.0%</u>

<u>Sources of Funds (000's):</u>		<u>Uses of Funds (000's):</u>	
Bond proceeds	\$15,100	Reimbursement	\$13,531
Equity funds	188	Pre-development Costs	1,867
FEMA Grant	<u>760</u>	Financing costs	<u>650</u>
Total Sources	<u>\$16,048</u>	Total Uses	<u>\$16,048</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for Los Angeles Jewish Home for the Aging, in an amount not to exceed \$15,100,000, subject to the issuance of a final, non-appealable judgment, order or ruling in a Validation Action determining the validity of this resolution (see page 2), a letter of credit with a minimum "A" rating (or equivalent short-term rating), and the security and reporting requirements of the Authority's guidelines for "A" or higher rated bond issues.

LOS ANGELES JEWISH HOME FOR THE AGING (“LAJHA”)

STAFF SUMMARY AND RECOMMENDATION

December 5, 2002
Resolution Number: F-294

LEGAL ISSUE: Due to concerns previously raised by the Attorney General, this resolution is contingent upon the issuance of a final, non-appealable court judgment in a validation action determining that the issuance of bonds by the Authority, the proceeds of which will be loaned to the Los Angeles Jewish Home for the Aging (LAJHA), is legal. The Attorney General is not presently able to provide an unqualified validity opinion relating to the issuance of bonds by the Authority to refinance and finance LAJHA projects.

An alternative to proceeding without this opinion is to bring a validation action pursuant to Government Code section 17700 and Code of Civil Procedure section 860 et seq. This is a method of seeking judicial validation of a bond issue that is available to financing authorities when the state of the law or its application to a specific factual situation is unclear (which in the opinion of the Attorney General, is the case with respect to the LAJHA financing).

A validation action may be initiated by the issuer or any interested party, and the court determines whether the bond transaction is valid. If the court decides that the transaction is valid and the court's determination is not appealed within 30 days, that judgment will preclude all challenges to the bond transaction. A validation action must be filed within 60 days of the resolution authorizing the bond issuance.

In a validation action, the plaintiff files a lawsuit (summons and complaint), naming "all interested persons" as defendants. Notice of the lawsuit is given by publication in the newspaper and by posting public notices and any resulting judgment entered in the action is binding on all persons regardless of whether they had actual knowledge of the action. The summons contains a notice to all persons interested in the matter that they may contest the legality or validity of the matter by appearing and filing a written answer to the complaint by the time specified in the summons (at least 10 days after completion of the publication requirements). If no interested person comes forward to challenge the financing, the issuer or entity seeking financing may then ask the court for a judgment declaring that the financing is valid. The process takes approximately 45 days (if uncontested). Once the court issues a judgment declaring that the financing is valid, there is a 30-day appeal period, after which time (if there is no appeal), the financing cannot later be challenged in court.

The Attorney General and the State Treasurer's Office have agreed that under these circumstances, having final non-appealable court judgment in a validation action that the proposed issuance of the bonds is valid is the preferable prerequisite to issuance of bonds on behalf of LAJHA by the Authority.

I. PURPOSE OF FINANCING: LAJHA proposes to use the majority of bond proceeds for reimbursement of construction and development expenditures related to building the Goldenberg-Ziman Center. This facility was built to replace a building that was damaged as a result of the Northridge earthquake. In addition, bond proceeds will be used to fund architectural and pre-development costs for the Grancell Village Corner, a future skilled nursing project.

Reimbursement **\$13,531,000**

LAJHA is requesting reimbursement for construction and development expenditures related to the building of the Goldenberg-Ziman Center which opened in April 2002. The Goldenberg-Ziman Center is a 96-bed skilled nursing dementia care facility located on the Eisenberg Village campus and includes 16 Hospice beds.

Pre-development Costs **1,867,000**

LAJHA is also requesting funding for the architectural and pre-development costs for the Grancell Village Corner, a future project. The project includes the development and construction of 239 additional skilled nursing facility (SNF) beds on the Grancell campus site. Construction will begin in the summer of 2003 following the demolition of an existing older complex. Grancell Village Corner will include 239 general care skilled nursing beds and a 10 bed geropsychiatric acute care unit. LAJHA anticipates state approvals in early of 2003 with the facility opening in 2005.

Financing Costs **650,000**

Bank Fees	\$210,000
Counsel Fees	180,000
Underwriters Discount	166,100
Other Costs.....	93,900

Total Uses of Funds **\$16,048,000**

Financing Structure:

- Negotiated Public Offering
- Variable rate with a weekly reset
- Credit Enhancement - 5 year renewable Letter of Credit through Allied Irish Bank
- General Obligation Pledge
- Deed of Trust as required by the Letter of Credit Bank

II. FINANCIAL STATEMENTS AND ANALYSIS:

Los Angeles Jewish Home for the Aging
Statement of Activities (unrestricted)
In Thousands (\$000's)

	Fiscal Year Ended August 31,			1999
	2002 (unaudited)	2001	2000	
Revenue:				
Unrestricted operating revenue				
Net patient service revenue	\$ 24,803	\$ 22,996	\$ 21,008	\$ 20,870
Other revenue	137	110	88	78
Contributions	6,785	6,749	6,492	5,572
Investment income	83	524	686	767
Net assets released from restriction (operations)	1,725	1,376	732	629
Total unrestricted operating revenue	<u>33,533</u>	<u>31,755</u>	<u>29,006</u>	<u>27,916</u>
Expenditures:				
Operating expenses				
Ancillary	1,222	1,216	1,372	1,509
Nursing	11,029	10,108	8,889	7,912
Plant operations, housekeeping/laundry	4,275	3,995	3,773	3,560
Dietary	3,960	3,830	3,680	3,397
Social services	1,294	1,199	1,120	911
General and administrative	5,299	5,043	4,897	4,668
Employee-related insurance	2,113	1,986	2,240	1,868
Fund-raising	1,439	1,241	1,023	1,046
Public relations	1,041	846	649	336
Clinic and day care	1,135	1,120	929	937
Depreciation and amortization	1,536	1,314	1,411	1,449
Insurance and taxes	419	298	133	152
Provisions for bad debts	10	10	64	41
Other	436	299	486	49
Total operating expenses	<u>35,208</u>	<u>32,505</u>	<u>30,666</u>	<u>27,835</u>
Revenue in excess of (less than) expenses	(1,675)	(750)	(1,660)	81
FEMA Grant	-	-	-	163
Net unrealized gain/loss on investments	(219)	(1,138)	633	315
Net assets released from restriction (capital expenditures)	6,269	5,243	1,305	625
Change in unrestricted Net Assets	4,375	3,355	278	1,184
Unrestricted Net Assets at beginning of year	20,255	16,900	16,622 *	13,712
Unrestricted Net Assets at end of year	<u>\$ 24,630</u>	<u>\$ 20,255</u>	<u>\$ 16,900</u>	<u>\$ 14,896</u>

*During 2000, LAJHA reclassified \$1.726 million to unrestricted net assets from permanently restricted net assets.

Los Angeles Jewish Home For The Aging
Consolidated Statement of Financial Position
In Thousands (\$000's)

	As of August 31,			
	2002 (Unaudited)	2001	2000	1999
ASSETS:				
Current assets				
Cash and cash equivalents	\$ 2,148	\$ 1,105	\$ 415	\$ 1,763
Investments	147	554	513	
Accounts receivable	1,763	1,307	1,303	944
Contributions receivable	4,478	3,268	2,055	995
Other receivables	1,686	536	337	257
Prepaid and other current assets	370	499	576	477
Total current assets	<u>10,592</u>	<u>7,269</u>	<u>5,199</u>	<u>4,436</u>
Assets restricted to investment in property				
Investments	991	4,529	3,431	901
Contributions receivable	6,636	6,583	8,651	7,775
Assets held in trust for residents	9,196	7,444	6,387	2,556
Assets held for deferred compensation	1,173	1,371	1,288	1,486
Receivables under split-interest agreements	-	-	92	61
Interest in net assets of The Guardians	275	379	681	529
Property, plant and equipment, net	598	1,110	-	-
Other assets	32,974	25,313	19,123	17,903
Total assets	<u>\$ 62,901</u>	<u>\$ 54,227</u>	<u>\$ 45,092</u>	<u>\$ 36,192</u>
Liabilities and Net Assets:				
Current liabilities				
Accounts payable and accrued expenses	\$ 1,670	\$ 1,445	\$ 1,529	\$ 1,558
Accrued construction costs	997	2,521	-	-
Accrued compensation	2,965	2,977	2,798	2,239
Advance payment of patient service fees	-	393	-	-
Line of credit	1,075	-	1,250	-
Due to third-party payors	129	267	636	582
Current portion of annuity obligations	144	102	73	51
Current portion of notes/other	2,032	182	154	23
Total current liabilities	<u>9,012</u>	<u>7,887</u>	<u>6,440</u>	<u>4,453</u>
Other liabilities				
Annuity obligations, less current portion	690	500	370	256
Deferred compensation	-	-	92	61
Resident funds	1,173	1,371	1,288	1,486
Notes payable, less current portion/other	3,084	821	172	26
Total liabilities	<u>13,959</u>	<u>10,579</u>	<u>8,362</u>	<u>6,282</u>
Net assets:				
Unrestricted	24,630	20,255	16,900	14,896
Temporarily restricted	16,013	15,365	11,946	5,563
Permanently restricted	8,299	8,028	7,884	9,451
Total net assets	<u>48,942</u>	<u>43,648</u>	<u>36,730</u>	<u>29,910</u>
Total liabilities and net assets	<u>\$ 62,901</u>	<u>\$ 54,227</u>	<u>\$ 45,092</u>	<u>\$ 36,192</u>
Proforma (a)				
	2001	2001	2000	1999
Debt Service Coverage Ratios (x)	5.83	30.32	73.43	101.27
Debt/Unrestricted Net Assets (x)	0.80	0.05	0.02	0.00
Margin (%)		9.36	0.90	4.08
Current Ratio (x)		0.92	0.81	1.00

(a) Based on adding projected new debt payments to the 2001 financial results.

Financial Discussion:

During our review period, LAJHA reflects improving operating results, but continues to report an operating loss. However, the change in unrestricted net assets has been positive in each year due primarily to contributions received for capital projects.

LAJHA has experienced improved operating results during our review period. During the most recent audited fiscal year 2001, operating revenues increased 9% compared to 6% for operating expenses. However, for the unaudited fiscal year 2002, expenses exceeded revenues by \$1.6 million.

LAJHA's positive revenue growth results from increases in patient revenue of approximately 83% from Medi-Cal and Medicare, with 17% coming from private pay. Net patient revenues have increased as a result of higher Medi-Cal and private pay rates. Additional revenue has also been recognized from the new group of independent living houses. LAJHA has sizable and increasing revenue from private contributions, totaling approximately 21% of LAJHA's revenue.

Operating expenses have increased primarily due to higher nursing costs, which increased 24% from FY 2000 to FY 2002. Due to the nursing shortage, LAJHA must offer competitive wages to retain and attract skilled nurses. Other expenses that increased significantly are fundraising and public relations. Since fundraising is such a significant part of LAJHA revenue, it expanded the department and increased responsibilities of the current employees. Public relations has followed the same path as the fundraising aspect. LAJHA must continually cultivate new contributors/donors in addition to maintaining its existing contributors/donors.

The change in unrestricted net assets was positive over our review period, mainly due to contributions received for the construction of the Goldenberg-Ziman Center.

LAJHA completed the construction of the Goldenberg-Ziman Center, a 96 bed facility, replacing a 50 bed facility that was demolished, for a net increase of 46 beds. LAJHA is also in the process of developing and constructing the Grancell Village facility that will provide 239 additional skilled nursing beds. This facility is scheduled to open in 2005. LAJHA maintains nearly a 100% occupancy rate and consistently has a waiting list of between 150 to 200 seniors over the last ten years. Demand for LAJHA services has been and continues to be extremely high.

LAJHA balance sheet is solid with minimal debt.

LAJHA has a solid balance sheet with nearly \$49 million in total net assets with over \$24 million in unrestricted net assets at August 31, 2002. The balance sheet continues to strengthen with the completion of the Goldenberg-Ziman Center in 2002.

LAJHA has minimal long-term debt, totaling only \$4.9 million. In the current fiscal year, LAJHA obtained a \$5 million short-term bridge loan to pay partial construction costs for the Goldenberg-Ziman Center and predevelopment costs for the Grancell Village Corner. This bridge loan will be paid-off when pledges are received. With this financing, LAJHA will be somewhat leveraged, but proforma debt service coverage is a strong 5.83x, which indicates that LAJHA will be able to manage the increased debt payments.

LAJHA is in the midst of a fundraising campaign in which they hope to raise \$72 million overall for this and the Grancell Village projects. LAJHA has successfully raised over \$30 million to

date, some of which have been used for the construction of the Goldenberg-Ziman Center. The remaining funds and the funds yet to be raised will be used for the construction of the Grancell Village.

LAJHA's liquidity will significantly improve upon receipt of the bond funds, since most of the bond proceeds will be used to reimburse LAJHA for previous expenditures.

III. BACKGROUND

The Los Angeles Jewish Home for the Aging (LAJHA) is a California nonprofit public benefit corporation. Established in 1912, the Home has a 90-year history of providing shelter and long term care to the low-income, at-risk elderly of Los Angeles. In 1915, the first campus of LAJHA was developed in Boyle Heights (east Los Angeles). Expansion of LAJHA was steady and after World War II, LAJHA opened a new campus in northern Los Angeles County's San Fernando Valley. LAJHA closed the Boyle Heights site in 1975 and moved all operations to the present sites in Reseda.

Governance

LAJHA is governed by a 40-member Board of Directors. Directors' terms are staggered and can be elected for three-year terms, consecutively. LAJHA operates the Eisenberg and Grancell campuses.

Licenses

At present, LAJHA facilities have expanded to physically fill both campuses. Licensed bed capacity currently totals 396 SNF beds, 50 additional licensed SNF beds that are currently unoccupied (and are not included in any of the counts in this report), 423 Residential Care Facility for the Elderly ("RCFE") beds, and space for 40 residents in the independent living houses, which do not require licensure. Unlike the SNF beds which are licensed by the California Department of Health Services and provide skilled care to patients in need of nursing and medical services, the RCFE beds are licensed by the California Department of Social Services and focus on meeting the assisted living, social, and housing needs of the frail elderly.

Service Area, Competition, and Market Share

The community that LAJHA serves generally includes the western portion of Los Angeles County, as well as a portion of Ventura County adjacent to the western edges of Los Angeles County. The two LAJHA campuses are located in primarily residential neighborhoods in Reseda, California, north of the Ventura Freeway, west of the San Diego Freeway, and south of the Simi Valley Freeway. Given their proximity and service integration, both campuses will be assumed to have the same Service and Market Area.

IV. UTILIZATION STATISTICS:

	YTD July 2002*	2001	2000
<u>Skilled Nursing Beds</u>			
Licensed Beds/In Service Beds	425/351	350/350	350/350
Occupied Bed Days	115,143	123,683	122,820
Occupancy, Beds in Use (%)	98%	97%	96%
<u>Residential Care Beds</u>			
Licensed Beds/In Service Beds	423/423	423/423	423/423
Occupied Bed Days	100,036	108,205	109,293
Occupancy, Beds in Use (%)	71%	70%	71%
<u>Outpatient Data</u>			
Outpatient Visits	7,288	7,084	6,457
<u>Percentage of Revenues</u>			
Skilled Nursing	71%	71%	69%
Residential Care	27%	27%	29%
Outpatient	2%	2%	2%

*Beds in service is weighted ave. with changes in licensed and in service beds taking place in May '02.

**Beds in service is low as many rooms are too small for two beds although licensed for two beds. LAJHA considers the RCFE 96% occupied.

V. SECTION 15438.5 OF THE ACT (Savings Pass Through).

The LAJHA has a long history of serving undeserved populations dating back to its beginnings as the Hebrew Sheltering and Home for the Aged Association. The mission of the LAJHA was then, and continues to this day, to serve low-income and at-risk elders. In addition to some private pay units and services, the LAJHA welcomes and markets its services to low income seniors with Medi-Cal insurance. This is in contrast to many skilled nursing providers in the area who either lack a Medi-Cal contract or do not actively market to this segment of the population. With the recent opening of one site and the planned opening of an additional site, the LAJHA will be one of the few skilled nursing and dementia care providers in the area operating new facilities and actively marketing to low income seniors. As a matter of policy, the LAJHA offers preferential admittance to Holocaust survivors, those who are isolated at home, and those living on fixed incomes.

VI. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement).

LAJHA has submitted a completed Physician’s list and a completed Certification and Agreement Regarding Community Service Obligation with its application as required by the Act.

VII. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 8/31/01 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
First Bank and Trust Note	\$831,000	\$831,000	\$831,000
First Bank and Trust Note	300,000	150,000	0
OSHPD Note	29,000	22,000	14,000
Bridge Loan	5,000,000*		3,900,000
Proposed:			
CHFFA, Bond Series 2002	15,100,000		15,100,000
TOTAL DEBT		<u>\$1,003,000</u>	<u>\$19,845,000</u>

(a) Includes current portion.

* Originated after 8/31/01

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for Los Angeles Jewish Home for the Aging, in an amount not to exceed \$15,100,000, subject to the issuance of a final, non-appealable judgment, order or ruling in a Validation Action determining the validity of this resolution, a letter of credit with a minimum “A” rating (or equivalent short-term rating), and the security and reporting requirements of the Authority’s guidelines for “A” or higher rated bond issues.